

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Corrections
Correctional Industries
Two Years Ended June 30, 2002

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4180
DEPARTMENT OF CORRECTIONS
CORRECTIONAL INDUSTRIES
TWO YEARS ENDED JUNE 30, 2002**

FINDINGS/RECOMMENDATIONS - 5

**ACCEPTED - 4
IMPLEMENTED - 1**

REPEATED RECOMMENDATIONS - 4

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9

This review summarizes the audit of the Department of Corrections, Correctional Industries (ICI), for the two years ended June 30, 2002, filed with the Legislative Audit Commission April 23, 2003. The auditors performed a compliance audit. In addition, they performed a financial audit for the one-year ended June 30, 2000. The auditors stated that the financial statements were fairly presented.

Correctional Industries is a component of the Adult Division of the Illinois Department of Corrections. The division operates manufacturing, service and agricultural industries within the adult correctional centers. Its purpose is to replicate a free world work environment to the greatest extent possible while operating within a budget that does not exceed income, maximizing the number of inmate assignments, and providing customers quality goods and services at a competitive price. The Unified Code of Corrections requires that committed persons may be compensated for work performed and that "of the compensation earned ... a portion, as determined by the Department, shall be used to offset the cost of the committed person's incarceration." The Department determined that 3% of the committed person's compensation would be withheld to offset the cost of incarceration.

The Director of the Department of Corrections during the audit period was Donald Snyder, Jr. Kenneth P. Dobucki was the current Chief Administrative Officer for ICI during the audit period. The Acting Chief Administrative Officer is Brad Sassatelli.

Following is the average number of employees (excluding inmates) in the Correctional Industries Division:

FY02 -197; FY01 - 210; FY2000 - 209.

Expenditures From Appropriations

The General Assembly appropriated \$59,283,700 from the Working Capital Revolving Fund to Correctional Industries for FY02. Appendix A summarizes the appropriations and expenditures for the period under review. Correctional Industries' operations are financed by sales of its products. All appropriations are made from the Working Capital Revolving Fund, which receives all proceeds from the sale of products and services. Total expenditures for the Working Capital Revolving Fund decreased from \$48,579,944 in FY01 to \$45,225,820 in FY02, a decrease of \$3,354,124, or 6.9%. Expenditures decreased due to a reduction in commodities. Lapse period spending was approximately \$4.8 million, or 10.8%.

Working Capital Revolving Fund

Appendix B provides a balance sheet for the Working Capital Revolving Fund at June 30, 2002. The State adopted new Governmental Accounting Standards effective July 1, 2001. This established new financial reporting requirements significantly changed the format and content of the State's financial statements. Some reports are no longer comparable between 2001 and 2002, but comparisons will be possible in succeeding years. The Working Capital Revolving Fund accounts for the activities of the Correctional Industries program. Net income for the Fund for FY02 was \$1,100,000.

Summary of Operations by Industry

Appendix C presents a summary of each of Correctional Industries' net income for each industry in FY02, FY01, and FY2000. During FY02, Correctional Industries operated 44 separate industries, of which half were found to be profitable and half experienced losses. During FY02, the following industries had the largest losses: Jacksonville Module Furniture (-\$626,877) and Shawnee Metal Furniture (-\$374,980). The industry with the greatest profit was Dixon Optical, \$1,435,201.

Accounts Receivable

Accounts receivable as shown in Appendix D amounted to \$7,569,367 at June 30, 2002. Accounts receivable represent amounts due from sale of goods and services to State agencies, local governments, and others. Accounts over 180 days old totaled \$242,476. The Department considers all accounts fully collectible.

Inventories and Property and Equipment

Inventories at June 30, 2002 are shown in Appendix E. Inventories at June 30, 2002 totaled \$11,525,176. Appendix F contains a summary of property and equipment. The sum of equipment, buildings and livestock at June 30, 2002 was \$25,993,776.

Number of Inmates Employed by Industry

Appendix G indicates the number of inmates employed by each industry for FY02 and FY01. During FY02, the average number of inmates working was 1,290, which was 185 fewer than FY01 when 1,475 were employed at Correctional Industries.

Accountants' Findings and Recommendations

Condensed below are the five findings and recommendations included in the audit report. Four recommendations were repeated from prior audits. The following recommendations are classified on the basis of information provided by Deanna Marvin, Internal Audit Supervisor, Department of Corrections, in a memo received via electronic mail on August 1, 2003.

Accepted and Implemented

- 1. Perform a cost/benefit analysis of each major operational decision and evaluate its coordination with the Agency's strategic plan prior to implementation. Continue the cost/benefit analysis after a programs' implementation to give management tools to monitor performance in relation to anticipated results. (Repeated-2000)**

Findings: Correctional Industries (ICI) management continues to make major decisions for new initiatives at ICI without documentation of sound business logic, including a cost/benefit analysis, or the initiative's alignment with ICI goals as identified in the strategic plan. In addition, there is no mechanism to review new programs after their implementation to evaluate whether they are achieving their intended objectives in a fiscally prudent manner.

ICI never analyzed the relative costs and benefits of leasing a large warehouse located in Pana. The cost of the ten-year lease is about \$4.1 million.

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ICI could not provide a cost/benefit analysis on the decision to manufacture dolls and accessories at its Lincoln facility. The first year of production, FY02, revealed a manufacturing loss of \$38,379, and the program was discontinued for FY03.

Accepted and Implemented - continued

ICI could not provide any support for the cost/benefit analysis performed in association with the "Adopt-a-Horse" Program. The program, to be housed on the grounds of the Vienna Correctional Center, plans to have inmates train wild horses to provide "adoptable" horses to the U.S. Department of the Interior Bureau of Land Management.

Response: Accepted. ICI will conduct a cost/benefit analysis, as needed on major program initiatives. Additionally, ICI will incorporate the need for cost/benefit analysis into its strategic plan, and once new programs are implemented, ICI will monitor their fiscal performance on an ongoing basis. It is noted that ICI does not exist for the sole purpose of making a profit for the State of Illinois although it has been profitable in each of its last six years. Its main mission is to provide inmates employed in its programs with the skills and work ethic necessary to be successful upon their release from prison. As such, ICI recognizes that some of its programs may not be financially profitable, but still may be implemented due to the fact that they assist ICI in reducing inmate recidivism. Historically, Illinois Correctional Industries programs have been successful at this, as the recidivism rate for inmates who participated in Industry programs has been lower than for the total inmate population.

Updated Response: ICI will incorporate cost benefit analysis into its major operational decisions. However, due to lack of staff, ICI has not recently implemented any new operational initiatives.

2. Carefully review all expenditures under lease agreement for propriety and pursue reimbursement of any expenditure paid in error.

Findings: ICI made payments totaling \$53,025 to the lessor of its Pana warehouse building that were not in accordance with the lease agreement.

Response: Implemented. ICI has been reimbursed for \$6,255 it paid in back rent for the period of December 2000 through February 2001 from the lessor. ICI is not seeking reimbursement for payment for the security system as Central Management Services has determined that the cost of the system was ICI's.

3. Critically re-examine the need for the Management Information System project and decide whether the project should continue. If it continues, management

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should assess its current stage, complete the project, and implement it in a timely, cost efficient manner, or seek other alternatives. (Repeated-2000)

Finding: ICI has been unsuccessful in its plan to install an automated management information system. The lack of success has caused unnecessary use of resources. In FY98, the Department contracted with a consulting company to purchase accounting

software at an expected cost of \$420,000. The purchase was part of an overall plan estimated to cost \$770,000, to install a networked accounting system at each of its 22 industry sites and the ICI-Central Office to gather timely data for analysis and decision-making. The project was to be fully completed in FY2000.

The auditors noted the following during the current audit:

- On June 30, 2000 the software consulting firm's contract expired. ICI had paid the consulting company \$340,000 of the \$420,000 contract, which was to include the software plus installation, training and support.
- ICI is using three of the 10 software modules it purchased at the Central Office and only one at the 22 remote locations.
- The fiber-optic cabling was installed at a cost that exceeded \$450,000, but it is being used for communication purposes only, not the planned accounting applications.
- The Department did not track and document the installation process for the software modules. Consequently, in FY01, ICI paid another consultant \$24,000 to prepare a report assessing the status of the project and an additional \$17,000 for that consultant to develop an RFP seeking to hire an outside consulting firm to manage the project to completion. Neither contract was competitively procured.
- In February 2002, CMS awarded a new bid for \$550,950 for a consulting company to assist with software implementation. ICI asked CMS to withdraw the award, citing the fact that several key staff had left the selected company.
- ICI continues to use its original software consulting firm to provide technical support.
- ICI plans to initiate a new RFP for software implementation and project management during FY03 and to have contracts in place in FY04. Once contracts are in place for both software implementation and project management, it will take 14-18 more months to complete the system installation.

According to ICI management, the lack of progress in installing the system was due in part to turnover of key ICI employees and a delay in the installation of fiber-optic cables.

Response: Accepted. Due to budgetary and personnel constraints, the Management Information System project is currently on hold. ICI will re-examine the need for the Management Information System project and will decide whether it should proceed.

Updated Response: General review of Macola Software has begun, however, due to staff and budgetary constraints any further installation is on hold.

Accepted and Implemented – concluded

- 4. Develop and implement a policy for internal reviews of agency operations, including specific review procedures of fiscal controls by location. An effective internal review policy should include procedures to identify functions, define objectives, test the adequacy of controls, and implement plans of improvement or corrective action. Document and report results. (Repeated-1998)**

Findings: ICI did not have a policy that requires a review of fiscal controls at the industry operations. An administrative directive requires internal reviews at individual industry operations; however, the directive did not specify what procedures to perform, nor did it require a review of fiscal controls.

Internal reviews of agency operations are important to ensure that procedures are in place to safeguard the operations, by industry and site, from waste, loss, unauthorized use, and misappropriation of assets.

Response: Accepted. Illinois Correctional Industries will develop and implement a policy for internal review of fiscal controls. IDOC Internal Audit Office has included audits of specialized areas of ICI fiscal controls and procedures in the annual audit plan.

Updated Response: IDOC's Internal Audit Office has planned to conduct specialized audits of ICI's fiscal controls and procedures. However, this is pending the statewide consolidation of State Internal Audit offices.

- 5. Re-evaluate use of temporary assignments for long-term employment positions. Comply with the union agreement's requirement for mutual agreement on assignments, and document such agreements in writing. (Repeated-1998)**

Findings: ICI continues to place employees on temporary assignment for extended periods, which violates union agreements and circumvents required steps in the hiring process. Sixteen employees were working for extended periods in temporarily assigned positions. Of the 16, three were placed in Supervisor positions and 11 in Superintendent positions. In all cases, the positions were at a higher-level job than the employees were performing prior to the assignment. The following conditions were noted:

- Four instances where employees were on temporary assignment from 69 days to 121 days due to vacant positions. The maximum time for the assignment should have been 60 days.
- Another employee received a temporary assignment pay for 110 days. The maximum amount of time should have been 45 days.

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- An additional 11 employees (seven from the union) received temporary assignment pay for merit comp positions with periods ranging from 97 days to two years.

The Department has not addressed staffing needs on a long-term basis. The continued use of temporary assignments could result in employees performing work for which they are not qualified. In addition, union agreements should be followed.

Response: Accepted. Illinois Correctional Industries on an ongoing basis will review the need for long-term temporary assignments. ICI will ensure it abides by the bargaining unit contracts. In all of the cases listed where the temporary assignment time limits were exceeded, there was not other staff eligible within the industries unit at that facility.

Updated Response: ICI management reviews temporary assignments on an ongoing basis. Staff shortages have required an increase in temporary assignments. Once approval to fill positions is granted it is expected that many of these temporary assignments will end.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, “The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY02, Correctional Industries filed no affidavits. During FY01, ICI filed three affidavits totaling \$366,194.02 for the following items:

- \$283,841.50 for a bun hopper for Illinois River Correctional Center;
- \$50,235.86 for cooling equipment repairs; and
- \$32,116.66 to fulfill a laundry contract while equipment was repaired at East Moline Correctional Center.

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